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C O N F I D E N T I A L SECTION 01 OF 05 CAIRO 005194

SIPDIS

DEPARTMENT FOR D, NEA/FO AND NEA/ELA  
NSC STAFF FOR ABRAMS/POUNDS

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SUBJECT: SCENESETTER FOR DEPUTY SECRETARY ZOELLICK'S JULY  
12-14 VISIT TO CAIRO

Classified by Charge d'Affaires Michael Corbin for reasons  
1.4 (b) and (d).

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Introduction  
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1. (C) Deputy Secretary Zoellick, Embassy Cairo warmly welcomes you to Egypt and believes your visit comes at a particularly significant moment for reform in Egypt. You will be able to review a number of important internal and regional developments, discussed below, since the S visit, in your meetings with President Mubarak, Prime Minister Nazif, Foreign Minister Aboul Gheit, and Intelligence Chief Soliman. You will also be able to discuss political reform and prospects for this fall's presidential and parliamentary elections with members of both the ruling party's reform wing and its old guard, as well as with key opposition leaders and political observers. The Egyptian and international press will be very interested in your visit, and your encounters with the media will present good opportunities to reinforce our messages on expanding freedom and democracy in Egypt and the region, confronting terror in Iraq and the wider region, and capitalizing on opportunities for peace in Gaza and the Sudan. End introduction.

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Recent Developments  
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2. (C) Since Secretary Rice's June 20 visit, a senior GOE official has indicated publicly that Egypt's first direct and competitive presidential election will be held on September 7 (although there has not yet been an official announcement of this date). Two electoral commissions have been established that will oversee, respectively, the presidential elections and the subsequent legislative elections. A slate of bills which make adjustments to the political system, touted by the GOE as significant political reforms, have also been passed, and the USG is moving forward with assistance to promote competition and transparency in the fall elections. Regional issues have continued to develop, with the abduction of Egypt's ambassador in Baghdad a pressing concern for Cairo. Egypt has continued to play an active role in the Sudan including the public dispatch of 800 peacekeeping troops to Southern Sudan. The GOE signed a long-awaited natural gas deal with Israeli Infrastructure Minister Eliezer in Cairo. Egypt has also continued to play an active role with Palestinian factions and in support of strengthened Palestinian security forces. However, an agreement on border guard deployment has yet to be reached.

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Presidential Race Moving Forward  
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3. (C) Egypt's first direct, competitive presidential election will be held on September 7, according to Zakaria Azmy, a senior ruling party official and one of the President's closest advisors. Azmy has also stated that candidates' nominations must be submitted to the newly-formed presidential elections commission by July 19. (Note: Azmy's remarks, printed in the leading pro-government daily, are authoritative but do not constitute an official announcement. End note.) Although we are still awaiting an official announcement, President Mubarak will almost certainly be seeking another term. Of his declared opponents, Ghad Party leader Ayman Nour, whose forgery trial has been postponed until September 25, would appear to pose the most serious challenge, although his legal case and attendant negative publicity have compounded his disadvantages. Khalid Mohieldin, the 84 year-old honorary chairman of the leftist Tagammu' party appears to be the only candidate from an established opposition party. Though a respected national figure (as one of the "free officers" who overthrew King Farouq in 1952), Mohieldin's frail health, and his unreconstructed socialist views, probably preclude him as a serious opponent. Several other leaders of Egypt's "paper" political parties are likely to run, but are unlikely to make much of an impact.

14. (C) Egypt's parliament ended its legislative term on July 5 with the passage of several political laws touted as key political reforms by the GOE. On July 2, President Mubarak promulgated four new laws:

- A presidential elections law
- Revisions to the law on political rights
- Revisions to the law on political parties
- Revisions to the law on the parliament

While your GOE interlocutors will present each of these laws as significant political reforms, opposition figures and other skeptical observers describe them as half measures. The scope and impact of these laws will depend greatly on the spirit in which they are interpreted and implemented.

15. (C) The presidential elections law established a presidential elections commission composed of three sitting members of the judiciary, five "independent" members to be named by parliament, and ex-officio representatives of the ministries of justice and interior. The commission members have been named and while including independent public figures, none of the names is a personality likely to take bold stands against the government. The law also imposes campaign spending limits and mandates "equal access" to the media for candidates. Critics charge that the law allows the executive to retain too much power over nominations to the electoral commission, and remain critical of the formula established by the constitutional amendment in which candidates qualify to run for president.

16. (C) The law on political rights established the commission which will regulate parliamentary elections (to be held in several stages in October and November). The law also stiffened the penalty for journalists who "spread false information" about parliamentary candidates, a provision interpreted by critics as a shield for corrupt politicians. Critics have also complained that the executive and the Ministry of Interior retain too much power in the regulation of parliamentary elections.

17. (C) The new law on political parties expands the membership of the GOE committee which reviews license applications for new political parties, a move the GOE maintains "liberalizes" the licensing process. Reform advocates had been hoping that the new law would abolish this committee outright. Critics also complain that the new law increases the number of signatures proposed parties must submit when petitioning for official recognition.

18. (C) The revisions to the law governing the parliament banned the use of mosques and churches for campaign events, set other rules for parliamentary campaigns, and slightly increased the minimum educational standards members of parliament must meet. However, members of parliament born before 1970 still only have to be deemed "literate" to qualify.

19. (C) Comment: With the exception of the constitutional amendment which established for the first time direct, multi-candidate presidential elections, none of the political reforms enacted by the GOE this year could be described as decisive or revolutionary. One possible exception would be the establishment of nominally independent commissions to regulate presidential and parliamentary elections. Previously, the Ministry of the Interior (MOI), an arm of the executive, had regulated elections. Skeptics point out that the MOI will retain operational control of the elections, with the commissions "setting the rules," but not actually administering the elections. End comment.

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Looking Toward the Fall Elections  
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10. (C) You will have the opportunity to discuss this state of play on political reform with senior GOE officials and with leaders of the ruling National Democratic Party, comprising both the "reform faction" and the party's "old guard." Some of your interlocutors from the opposition will argue that they are "two faces of the same coin." While familiarity with the details of political reforms enacted to date will be useful, the main point to keep in mind is that most of the political reforms undertaken so far are tentative, and rather than allowing the GOE and the NDP to rest on their laurels, we will want to press them to focus on effective implementation of reform, with a particular emphasis on the GOE's management of this fall's presidential and parliamentary elections.

11. (C) On the presidential elections, it is difficult to envision a scenario in which President Mubarak is not reelected. The president, who has skillfully employed his

nation's pharaonic political culture throughout his career, can count on the unqualified support of the ruling NDP, which exponentially outclasses any other political party in terms of nation-wide organization, patronage networks, and resources. The key factor in the presidential elections, therefore, is not the outcome but the process.

12. (C) We will want to see Mubarak's competitors allowed to campaign, and stage rallies, free from harassment by either security officials or hired thugs, and to enjoy reasonable access to state media and fair coverage therein. On election day, domestic and international observers should be unencumbered in making their rounds and reporting their findings. Security forces should not block voters' access to polling stations, and judges supervising the polls should have a broad mandate to oversee the process and ultimately pronounce them free and fair.

13. (C) In the elections for the People's Assembly (PA), expected to be held in several stages in October and November, the stakes are higher for Egypt's long-term democratic transition. The ruling NDP overwhelmingly dominates the current PA - with 409 of the 444 elected seats. Under the modalities established in the constitutional amendment allowing for competitive presidential elections, political parties will have to occupy at least five percent of the elected seats in the People's Assembly and the Shura Council (the upper house of parliament) in order to put forward presidential candidates as of the next presidential election in 2011. Currently no opposition party can meet this standard. Parties will have two chances, in the fall of 2005 and again in 2010, to secure five percent of the seats, but if no opposition party achieves this threshold this year, many will judge the presidential elections amendment superficial in impact.

14. (C) You will want to caution your interlocutors in the GOE and the ruling NDP that the old play book for manipulation of legislative elections must not be applied this year. There will be unprecedented international attention to this year's legislative elections, and if they fail to produce a more diverse and independently-minded parliament, the GOE's rhetorical commitment to democracy will ring hollow, with tangible consequences for our bilateral relationship. The GOE's best protection against this will be to allow domestic and international observers to watch the elections and to afford the opposition every reasonable opportunity to compete.

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USG Engagement on Democracy  
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15. (C) As the USG's focus on democratic transition in Egypt has increased during this election year, USAID has stepped up and more tightly focused its activities in this area. Through an Annual Program Statement (APS) that solicits proposals from Egyptian and international organizations, USAID is funding a variety of democratization activities, and expects to spend USD 4.5 to 5 million on election-related activities this year. This direct assistance, in conjunction with the other assistance to civil society and grass roots organisations, is being disbursed for the first time without prior GOE approval, as specified in the Brownback Amendment to the 2005 Foreign Operations Bill.

16. (C) USAID has just signed three grants for NDI, the International Center for Freedom in Journalism, and a coalition of Egyptian NGOs, to support monitoring and fair media coverage of the upcoming presidential and parliamentary elections. In addition, USAID has a contract with International Foundation for Electoral Systems (IFES) to assist the new Egyptian electoral commissions carry out their mandates, assist Egyptian NGOs and universities to develop and organize voter education materials and events, and support civic dialogue on electoral reform. These election-related activities complement USAID's longer-term activities supporting democratic institution building in the judicial sector, decentralization, and local governance.

17. (C) In addition to USAID programs, the Middle East Partnership Initiative (MEPI) has been steadily ramping up its presence in Egypt. Ambassador Welch, in one of his last acts as Ambassador to Egypt, awarded in March USD one million in MEPI grants to six Egyptian NGOs which had proposed to undertake election monitoring, voter education and other democracy-related civic education activities in Egypt. Since March, MEPI has pressed forward with a number of other small grants and is constantly surveying for more opportunities to fund democracy initiatives in Egypt. In all cases, the key to making this assistance effective will be overcoming bureaucratic obstacles that prevent implementation before the elections. So far, the GOE has not said "no" to any activity, and the senior GOE officials have asserted that the GOE will not block such assistance. However, the proof will be in the implementation.

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Economic Reform  
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118. (C) Prime Minister Nazif's government, with young, business-oriented ministers in key economic positions, has implemented sweeping reforms, including substantial reductions in customs tariffs and income taxes, as well as privatization of several public companies. The Central Bank of Egypt has stabilized the exchange rate; for the first time in years hard currency is readily available and the black market has disappeared. Inflation has dropped from 12 to 9 percent since last July. Parliament recently approved the new fiscal year budget, which was drafted for the first time according to IMF standards. Nazif has also begun reforming Egypt's stifling bureaucracy and burdensome public subsidies. Several long-standing bilateral trade issues have been resolved, indicating the Nazif administration's seriousness in preparing for an FTA. Egypt is also now exporting products under the Qualifying Industrial Zone (QIZ) agreement with Israel, signed in December 2004.

119. (C) We are using out bilateral assistance program to support these reforms. The U.S. and Egypt signed an MOU on financial sector reform in March 2005, which ties DSP funds to GOE compliance with specific reform benchmarks, including privatization of public banks, development of a real estate mortgage finance facility and privatization of public insurance companies. The next major financial reform benchmark facing the GOE is privatization of the Bank of Alexandria, one of Egypt's "big four" public sector banks. The target for this privatization is the end of 2005; upon privatization, we will release to the GOE USD 150 million in DSP funds.

120. (C) The Emergency Supplemental Assistance offered after the Iraq war contained USD 300 million in cash and USD 2 billion in loan guarantees and included specific benchmarks the GOE had to meet before funds could be released. The GOE met the benchmarks for the cash transfer portion of the assistance, which was released in June 2004. The GOE has met many, but not all, of the conditions for the loan guarantees. It is very unlikely to meet all conditions before legislative authority for the guarantees expires on September 30. The interagency community has agreed to make available a portion (USD 1.25 billion) of the guarantees in recognition of the benchmarks met to date. Secretary Snow will shortly sign a letter to Finance Minister Boutros Ghali to this effect. Another outstanding issue is how the GOE will pay the budget subsidies for the guarantees. The GOE agreed to pay the subsidies from DSP funds, and USAID is working with the GOE to identify DSP funds that could be used for this purpose.

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Regional Issues: Gaza Withdrawal  
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121. (C) Egypt has been pressing Israel for some time to agree to the dispatch of 750 Egyptian military border guards to patrol the 14-kilometer border between Egypt and Gaza. Smuggling, including through tunnels, along this sensitive stretch of border has been a sore point between Cairo and Tel Aviv; the Camp David accords limit Egypt's coverage of the border to civilian police, and the GOE wants a more highly trained force in that zone. Mubarak and Soliman have apparently won the GOI's agreement in principle at the political level. The two key issues remain how permanent the deployment will be and whether Egypt can deploy similar border guards along the whole length of the Sinai borders.

122. (C) We continue to hear that agreement may be imminent, usually with the caveat that the Egyptian and Israeli militaries need to work out more details. If the Israeli Attorney General determines that the Egyptian deployment would not necessarily require a change in the treaty itself, this may open the door to a change in the border force as an "agreed activity" within the treaty framework. Deployment of a more capable border force would be more timely in advance of the beginning of Gaza disengagement.

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Sudan  
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123. (SBU) Egypt is intensely concerned and tactically engaged in the stability of its southern neighbor, from which flow the essential waters of the Nile. Prime Minister Nazif will represent Egypt in Khartoum at the July 9 installation of the Government of National Unity. Recent manifestations of Egypt's engagement include brokering the June 18 Cairo agreement between the GOS and the National Democratic Alliance (NDA), facilitating NDA participation in the National Constitutional Review Commission (Cairo 4681 and Cairo 4875).

124. (SBU) In addition to its political involvement in helping to broker peace in Sudan, Egypt has also provided material support. Egypt sent a mobile medical clinic, military observers, and numerous humanitarian flights to Darfur. In addition, it recently began to dispatch a peacekeeping force of over 800 troops to south Sudan and has indicated a willingness to increase those numbers (Cairo 4876). Egypt's forces in Sudan are to include a command group element, an infantry company, an engineering company, a demining company, a transportation platoon, and a field hospital. Egyptian Minister of Defense Tantawi highlighted Egypt's peacekeeping efforts in Sudan as a declaration "to the world that peace is Egypt's strategic choice."

125. (C) During Senior Representative Snyder's June 30 visit to Cairo (Cairo 5173), MFA, EGIS, and Arab League officials all confirmed their commitment to working closer with the USG to further the prospects of stability in Sudan. The MFA and Arab League also proposed increased cooperation on infrastructure projects like hospitals, roads, or universities to boost development. EGIS Chief Soliman has the Sudan file in the GOE, and your meeting with him will likely be the best opportunity to review developments in Sudan.

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Iraq  
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126. (C) Egypt is currently preoccupied with the July 2 abduction of its Ambassador in Baghdad, Ihab el-Sherif. Cairo's recent dispatch of Sherif to Baghdad was indicative of Egypt's support for the process of normalization and pacification in Iraq and shoring up regional support for the Iraqi government. Condemnation of Sherif's kidnapping has been universal in Egypt, though some commentators have blamed the GOE for prematurely sending an Ambassador while the security situation remains volatile. Egypt's offer to train Iraqi police and military personnel remains open, and several hundred Iraqi security personnel have received training here, but the Iraqi government has so far preferred to train the majority of its personnel in Iraq or Jordan.

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CORBIN